
State of Wisconsin
Notice of **Material Information** #2009-20
Dated November 19, 2009

The State of Wisconsin is voluntarily making this filing, which provides information that may be material to financial evaluation of one or more obligations of the State of Wisconsin. Neither the preparation nor submission of this document constitutes a Material Event pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009).

Issuer: State of Wisconsin
Clean Water Revenue Bonds

CUSIP Numbers: 977092 Prefix (All)

Type of Information: Financial/Operating Data Disclosures
Audited Financial Statements (Rule 15c2-12)
Financial Statements and Independent Auditors' Report
for the Year Ended June 30, 2009

Attached are (1) financial statements for the years ended June 30, 2009 and June 30, 2008, supplemental information for the year ended June 30, 2009, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and (2) financial statements for the ended June 1, 2009 and independent auditor's report for the Leveraged Loan Portfolio.

The State of Wisconsin has filed this notice with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. The filing is also available on the State of Wisconsin Capital Finance office web site at:

www.doa.state.wi.us/capitalfinance

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing annual reports and giving notice of material events when notice is required by the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009), and is authorized to distribute this information publicly.



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**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND
AND
LEVERAGED LOAN PORTFOLIO**

STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND

FINANCIAL STATEMENTS
For the Years Ended June 30, 2009 and 2008,
SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2009, and
Independent Auditors' Report

AND

LEVERAGED LOAN PORTFOLIO

FINANCIAL STATEMENTS
For the Year Ended June 1, 2009 and
Independent Auditors' Report

STATE OF WISCONSIN

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INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2009 and 2008, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement fund as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin

The State of Wisconsin Environmental Improvement Fund has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

The supplemental information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The "Other Information" on page 34 is presented for informational purposes only and is not a required part of the financial statements of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us and, accordingly, we express no opinion on such information.

Madison, Wisconsin
November 13, 2009

Baker Tilly Vuckow-Krause LLP

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 215,425,869	\$ 210,929,526
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,551,942	47,734,249
Receivables		
Loans to local governments - current portion	147,975,279	131,939,118
Due from other funds	15,483	21,516
Due from other governmental entities	8,605,754	8,103,008
Accrued investment income	378,957	420,379
Other	548,264	670,016
Prepaid items	21,890	21,649
Total Current Assets	418,523,438	399,839,461
Noncurrent Assets		
Restricted assets - cash equivalents	99,384,996	92,102,609
Investments - State of Wisconsin general obligation clean water bonds, at fair value	160,350,361	147,407,901
Loans to local governments	1,645,897,707	1,583,604,221
Prepaid items	235,010	251,897
Deferred debt expense	3,206,493	2,981,401
Total Noncurrent Assets	1,909,074,567	1,826,348,029
TOTAL ASSETS	\$ 2,327,598,005	\$ 2,226,187,490
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accrued expenses	\$ 148,815	\$ 167,881
Accrued interest on bonds	3,388,958	5,134,176
Due to other funds	1,326,357	1,432,922
Due to other governmental entities	145,852	143,488
Revenue obligation bonds - current maturities	66,865,000	60,730,000
Total Current Liabilities	71,874,982	67,608,467
Noncurrent Liabilities		
Revenue obligation bonds, net (including deferred charge)	762,403,792	737,249,116
Due to other governmental entities	958,840	1,227,249
Accrued expenses	76,188	59,495
Total Noncurrent Liabilities	763,438,820	738,535,860
Total Liabilities	835,313,802	806,144,327
Net Assets		
Restricted for environmental improvement	1,468,879,875	1,392,936,109
Unrestricted	23,404,328	27,107,054
Total Net Assets	1,492,284,203	1,420,043,163
TOTAL LIABILITIES AND NET ASSETS	\$ 2,327,598,005	\$ 2,226,187,490

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Loan interest	\$ 28,382,059	\$ 26,310,790
Interest income used as security for revenue bonds	<u>19,950,170</u>	<u>18,957,040</u>
Total Operating Revenues	<u>48,332,229</u>	<u>45,267,830</u>
 OPERATING EXPENSES		
Interest	39,281,867	36,438,974
Salaries and benefits	4,348,126	4,147,404
Contractual services and other	<u>1,930,821</u>	<u>1,766,459</u>
Total Operating Expenses	<u>45,560,814</u>	<u>42,352,837</u>
 Operating Income	<u>2,771,415</u>	<u>2,914,993</u>
 NONOPERATING REVENUES (EXPENSES)		
Investment income	2,197,258	7,457,971
Investment income used as security for revenue bonds	21,525,827	13,750,638
Operating grants	33,674,918	41,453,991
Hardship grants awarded	<u>(2,924,786)</u>	<u>(1,082,969)</u>
Total Nonoperating Revenues, Net	<u>54,473,217</u>	<u>61,579,631</u>
 INCOME BEFORE TRANSFERS	57,244,632	64,494,624
 Transfers in	<u>14,996,408</u>	<u>34,570,124</u>
 Increase in Net Assets	72,241,040	99,064,748
 TOTAL NET ASSETS - Beginning of Year	<u>1,420,043,163</u>	<u>1,320,978,415</u>
 TOTAL NET ASSETS - END OF YEAR	<u>\$ 1,492,284,203</u>	<u>\$ 1,420,043,163</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS USED BY OPERATING ACTIVITIES		
Payments to employees for services	\$ (4,378,171)	\$ (5,262,676)
Reimbursement of salaries	-	1,935,938
Payments to suppliers and other	(2,654,915)	(3,061,936)
Other operating revenues	50,136	49,778
Net Cash Flows Used by Operating Activities	(6,982,950)	(6,338,896)
 CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	33,661,580	42,239,816
Grants paid	(2,924,786)	(1,082,969)
Transfers in	14,996,408	34,570,124
Proceeds from issuance of long-term debt	94,974,120	107,213,970
Refunding bond proceeds deposited in irrevocable trust	-	29,275,000
Retirement of long-term debt	(60,730,000)	(83,085,000)
Interest payments	(43,414,625)	(36,323,513)
Net Cash Flows From (Used by) Noncapital Financing Activities	36,562,697	92,807,428
 CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Origination of loans	(215,214,882)	(274,142,350)
Collection on loans	136,885,237	124,066,783
Interest received on loans	27,956,378	32,610,025
Purchase of investments	(142,119,211)	(122,368,310)
Liquidation of investments	126,898,777	85,542,016
Investment and interest income	47,792,684	44,992,456
Net Cash Flows From (Used by) Investing Activities	(17,801,017)	(109,299,380)
 Net Increase (Decrease) in Cash and Cash Equivalents	11,778,730	(22,830,848)
 CASH AND CASH EQUIVALENTS - Beginning of Year	303,032,135	325,862,983
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 314,810,865	\$ 303,032,135

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 2,771,415	\$ 2,914,993
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Amortization	(2,680,235)	(1,591,259)
Interest income classified as investing activity	(48,282,095)	(45,218,052)
Interest expense classified as noncapital financing activity	44,117,401	35,572,300
Changes in assets and liabilities		
Due from other funds	198,525	2,287,571
Other receivables	121,752	(670,016)
Prepaid items	16,646	16,984
Deferred debt expense	(791,997)	(162,129)
Accrued expenses	(2,372)	35,338
Accrued interest on bonds	(2,155,297)	2,457,933
Due to other funds	(299,057)	(2,085,047)
Due to other governmental entities	2,364	102,488
Total Adjustments	<u>(9,754,365)</u>	<u>(9,253,889)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ (6,982,950)	\$ (6,338,896)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Unrestricted cash and cash equivalents - statement of net assets	\$ 215,425,869	\$ 210,929,526
Restricted cash and cash equivalents - statement of net assets	<u>99,384,996</u>	<u>92,102,609</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 314,810,865	\$ 303,032,135

NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE

See accompanying notes to financial statements.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The State of Wisconsin Environmental Improvement Fund (the “Fund”) is an enterprise fund of the State of Wisconsin (the “State”) administered by the State of Wisconsin Department of Natural Resources (the “DNR”) and the State of Wisconsin Department of Administration (the “DOA”).

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced the Clean Water Fund Program and expanded loan activity to include drinking water system loans and brownfield loans. The Fund provides for three separate environmental financing programs: the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of municipal drinking water facilities. The following four loan portfolios comprise the Environmental Improvement Fund:

- > **Leveraged Loan Portfolio**—This portfolio is funded by proceeds of revenue obligation bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program.
- > **Direct Loan Portfolio**—This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and operating transfers from the State (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio are also used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.
- > **Proprietary Loan/Grant Portfolio**—This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.
- > **Drinking Water Loan Portfolio**—This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2009 and 2008, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2009 and 2008, the total amount drawn on these loans was \$13,114,451 and \$12,630,747, respectively. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reporting Entity (cont.)—The Fund applies all applicable Governmental Accounting Standards Board (“GASB”) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Net Operating Income/Loss—The Fund incurred net operating income of \$2.8 million in 2009 and net operating income of \$2.9 million in 2008. Management expects the Fund will generally incur net operating losses in most years. As explained in Note 2, a loss will generally result from the Fund’s statutory mission to provide loans to municipalities at interest rates below the Fund’s own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately \$33.7 million and \$41.4 million in 2009 and 2008, respectively, and are classified as operating grants. Operating transfers from the State of Wisconsin were approximately \$1.6 million and \$3.2 million in 2009 and 2008, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

Loans Receivable—Loans receivable are recorded at cost. Direct costs to originate loans are not material and are expensed as incurred. Fees received to originate loans are not material and are recorded as income when received.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the statements of net assets.

Investments—The Fund may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States, and solvent financial institutions in the State, commercial paper and nonsecured corporation notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3 to the financial statements).

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Fund holds United States Treasury Notes as investments at June 30, 2009 and 2008 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements

(cont.)—GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA (“Wachovia”); one forward delivery agreement with Westdeutsche Landesbank Girozentral (“WestLB”); and two forward delivery agreements with JP Morgan Chase Bank (“JP Morgan”) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2009, the fair value of the Fund’s interest in these three agreements was above the cost of the treasury securities owned by approximately \$500,402. At June 30, 2008, the fair value was below the cost by \$680,000.

Investments—Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 8). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the internal Revenue Code; the amount that must be rebated (“estimated arbitrage”) to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

Deferred Debt Expense—Issuance costs relating to the revenue obligation bonds are capitalized and are being amortized as a component of interest expense using the effective rate method.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

Deferred Charge—The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

Cash Equivalents—The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Fund also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash Equivalents (cont.)—Cash and cash equivalents in the Direct Loan Portfolio and Leveraged Loan Portfolio, while classified as unrestricted assets under accounting principles generally accepted in the United States (“GAAP”), are restricted as to use under federal statute and code and under the Clean Water Revenue Bond covenants and indenture. Those federal restrictions require that, with few exceptions, the funds can only be used for purposes of making loans to municipalities for program purposes, and that the funds must be kept available “in perpetuity” for such purposes. Likewise, the Clean Water Revenue Bond indenture specifies the use of bond proceeds, proceeds from loan repayments, and money in other accounts created under the bond indenture.

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

Net Assets—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Cleanwater Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expenditure occurs and include \$33.7 million and \$41.4 million of EPA contributions in 2009 and 2008, respectively.

Hardship Grants—Hardship grants are recognized as an expense when the funds are granted and disbursed.

Transfers In/(Out)—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of capital returned to the state's general fund.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2009 and 2008 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 5.8% to 0% in both 2009 and 2008. The weighted average interest rate was 2.646% and 2.689% at June 30, 2009 and 2008, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS (cont.)

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2009, all loans were performing in accordance with the contractual terms.

Of the loans outstanding at June 30, 2009 and 2008, \$587,229,669 and \$543,910,827 (33% and 32%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into \$248,817,007 of new loans and \$2,762,550 of new grants during fiscal year 2009. As of June 30, 2009, they had undisbursed commitments of \$240,209,098 relating to loans and \$482,467 relating to grants. From July 1, 2009 to September 14, 2009, the Fund made additional loan disbursements of \$16,236,209 for financial assistance agreements that were outstanding prior to June 30, 2009. \$1,818,482 of additional loans were executed between July 1, 2009 and September 14, 2009. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2009 and 2008, cash and cash equivalents consisted of the following:

	2009	2008
Cash held by Trustee	\$ 2,183,992	\$ -
State of Wisconsin Investment Board ("SWIB") Local Government Investment Pool ("LGIP"), at fair value	283,186,836	267,341,586
Investments reported at cost:		
MBIA Guaranteed Investment Agreement	-	6,250,292
Repurchase Agreement with Bayerische Landesbank	7,597,910	7,597,910
American International Group Matched Funding Corp. ("AIG") Guaranteed Investment Agreement	21,842,081	21,842,081
Miscellaneous cash	46	266
	314,810,865	303,032,135
Less: Amounts classified as restricted assets (see Note 6)	(99,384,996)	(92,102,609)
Total Unrestricted Cash and Cash Equivalents	\$ 215,425,869	\$ 210,929,526

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP was insured as to credit risk under a surety bond issued by Financial Security Assurance, Inc. This coverage expired on February 15, 2009. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2009, the current yield on the LGIP was 0.39%, compared to 2.23% as of June 30, 2008. The LGIP investment is stated at fair value.

The investment with MBIA Investment Management Corporation was sold during the fiscal year. This investment was secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. No market value was available at June 30, 2008 for MBIA. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 2009 and 2008, the agreement had a market value of \$24,875,732 and \$24,712,152, respectively, and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 30, 2009 and 2008, the repurchase agreement had a market value of \$8,983,558 and \$8,710,232, respectively. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. The repurchase agreement and the AIG investment agreement both provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

As of June 30, 2009	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
Cash held by trustee	\$ 2,183,992	\$0	N/A	N/A	N/A	N/A	0.4%
LGIP	283,186,836	N/A	Not rated	80 days weighted average maturity	N/A	N/A	55.4
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1.5
AIG-GIC	21,842,081	N/A	A-	6-1-11 final maturity	N/A	N/A	4.2
Treasury notes – Forward delivery	46,100,206	\$0	N/A	See Note 4	N/A	N/A	9.0
GO Bonds-WI	150,050,361	\$0	Aa3	5-1-24 final maturity	N/A	N/A	29.5
Miscellaneous cash	46	N/A	N/A	N/A	N/A	N/A	0.0

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

<u>As of June 30, 2008</u>	<u>Amount</u>	<u>Exposure to Custodial Credit Risk</u>	<u>Credit Risk</u>	<u>Interest Rate Risk</u>	<u>Interest Rate Highly Sensitive</u>	<u>Foreign Currency Rate</u>	<u>% of Portfolio</u>
LGIP	\$ 267,341,586	N/A	Not rated	51 days weighted average maturity	N/A	N/A	54%
MBIA-GIC	6,250,292	N/A	A2	6-1-13 final maturity	N/A	N/A	1
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	1
AIG-GIC	21,842,081	N/A	A2	6-1-11 final maturity	N/A	N/A	4
Treasury notes – Forward delivery	47,734,249	\$0	N/A	See Note 4	N/A	N/A	10
GO Bonds-WI	147,407,901	\$0	Aa3	5-1-24 final maturity	N/A	N/A	30
Miscellaneous cash	266	N/A	N/A	N/A	N/A	N/A	0

The EIF does not have an investment policy for custodial credit risk, credit risk, interest rate risk, or concentration of credit risk.

Restricted assets of \$99,384,996 and \$92,102,609 at June 30, 2009 and 2008, respectively, represent amounts legally restricted by the Clean Water Revenue Bonds. The amounts restricted are the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Fund has entered into seven agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 6). Four of the agreements are with Wachovia, one is with WestLB, and two are with JP Morgan and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, and 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan are required to deliver United States Treasury securities ("Treasury securities") to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination. Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Fund to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The agreement with WestLB was amended effective December 10, 2002 to modify the termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2009, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,187,200	4.625%	\$ 6,992,051	5.58%	June 1, 2017	\$ 7,179,021
Series 1998-1 Agreement	7,475,800	4.625	7,292,805	5.01	June 1, 2018	7,467,093
Series 1993-1 Agreement*	2,183,992	N/A	2,183,992	5.22	June 1, 2013	-
Series 1999-1 Agreement	7,137,500	4.625	6,918,863	6.32	June 1, 2020	7,129,378
Series 2006-1 Agreement	6,467,000	6.250	6,421,561	4.56	June 1, 2027	6,543,552
Series 2006-2 Agreement	8,067,000	4.625	7,999,327	4.84	June 1, 2027	8,162,492
Series 2008-1 Agreement	10,130,600	4.625	9,927,334	4.10	June 1, 2028	10,119,072

* The \$2,183,992 reported for the Series 1993-1 Agreement was held by the Environmental Improvement Fund's custodian as a pending transaction at June 30, 2009.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2008, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,024,000	4.625%	\$ 6,991,281	5.58%	June 1, 2017	\$ 7,103,296
Series 1998-1 Agreement	7,306,000	4.625	7,292,156	5.01	June 1, 2018	7,388,479
Series 1993-1 Agreement	2,241,000	N/A	2,183,992	5.22	June 1, 2013	2,221,900
Series 1999-1 Agreement	6,976,000	4.625	6,918,683	6.32	June 1, 2020	7,054,754
Series 2006-1 Agreement	6,420,000	6.250	6,421,977	4.56	June 1, 2027	6,535,539
Series 2006-2 Agreement	8,008,000	4.625	7,999,465	4.84	June 1, 2027	8,098,404
Series 2008-1 Agreement	9,901,000	4.625	9,926,695	4.10	June 1, 2028	10,012,775

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfunds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Direct Loan Portfolio	Proprietary Portfolio	\$ 2,451,195	State Match
Proprietary Portfolio	Debt Service Fund	4,940,000	Debt Service and Good Faith Deposit
Leveraged Loan Portfolio	Capital Improvement	17,700,000	Future Debt Service
Safe Drinking Water Loan Program	Capital Improvement	1,585,238	State Match
Bond Security and Redemption	Direct Loan Portfolio	6,000,000	G.O. Bond Debt Service
Debt Service Fund	Proprietary Portfolio	88,830	Personal Services
Safe Drinking Water Loan Program	Proprietary Portfolio	3,140,000	Debt Service
Subtotal		35,905,263	
Less: Fund eliminations		(20,908,855)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Assets		<u>\$ 14,996,408</u>	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

Revenue bonds activity as of June 30, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 773,825,000	\$ 92,210,000	\$ 60,730,000	\$ 805,305,000	\$ 66,865,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(8,824,043)	-	(1,774,719)	(7,049,324)	-
Premiums/discounts	32,978,159	2,764,120	4,729,163	31,013,116	-
Totals	\$ 797,979,116	\$ 94,974,120	\$ 63,684,444	\$ 829,268,792	\$ 66,865,000

Revenue bonds activity as of June 30, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Revenue bonds				
Add/(subtract) deferred amounts for:				
Refundings-gains/(losses)	(9,476,590)	(1,353,537)	(2,006,084)	(8,824,043)
Premiums/discounts	26,082,666	11,105,413	4,209,920	32,978,159
Totals	\$ 746,181,076	\$ 137,086,876	\$ 85,288,836	\$ 797,979,116

* Includes \$29,275,000 of refunded bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 30, 2009 and 2008 consisted of the following:

	2009	2008
1991 Series 1:		
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	\$ 39,555,000	\$ 57,445,000
Unamortized discount on bonds	(29,540)	(57,850)
	39,525,460	57,387,150
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	79,450,000	90,400,000
Unamortized premium on bonds	1,929,975	2,521,022
	81,379,975	92,921,022
1999 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2009	-	3,535,000
Unamortized premium on bonds	-	4,623
	-	3,539,623
2001 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	21,385,000	24,390,000
Unamortized discount on bonds	(156,542)	(150,948)
	21,228,458	24,239,052
2002 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	51,955,000	55,720,000
Unamortized discount on bonds	(176,706)	(100,272)
	51,778,294	55,619,728
2002 Series 2:		
Serial Bonds, no optional redemption, June 1, 2016	39,745,000	44,345,000
Unamortized premium on bonds	1,407,012	1,775,804
	41,152,012	46,120,804
2004 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	85,150,000	89,075,000
Unamortized premium on bonds	2,370,394	2,840,455
	87,520,394	91,915,455

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

	2009	2008
2004 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	\$ 102,675,000	\$ 107,025,000
Unamortized premium on bonds	6,308,625	7,528,503
	108,983,625	114,553,503
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	75,040,000	77,580,000
Unamortized premium on bonds	3,920,371	4,246,961
	78,960,371	81,826,961
2006 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	93,800,000	96,975,000
Unamortized premium on bonds	3,250,748	3,657,143
	97,050,748	100,632,143
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	97,005,000	100,000,000
Unamortized premium on bonds	6,682,779	7,435,903
	103,687,779	107,435,903
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	27,335,000	27,335,000
Unamortized premium on bonds	2,963,044	3,276,815
	30,298,044	30,611,815
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	92,210,000	-
Unamortized premium on bonds	2,542,956	-
	94,752,956	-
Total of All Series	836,318,116	806,803,159
Unamortized deferred charge related to debt defeasance (Note 7)	(7,049,324)	(8,824,043)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 829,268,792	\$ 797,979,116

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

The original issue discount or premium at issuance and the interest rates at June 30, 2009, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 2	(7,739,808)	4.00 – 5.50%
2001 Series 1	(1,022,362)	4.50 – 5.25%
2002 Series 1	(2,426,001)	4.00 – 5.25%
2002 Series 2	(7,344,000)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%

Principal maturities of the bonds, net of advance refundings, as of June 30, 2009, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2010	\$ 66,865,000	\$ 40,676,666	\$ 107,541,666
2011	70,690,000	37,109,691	107,799,691
2012	50,710,000	33,369,935	84,079,935
2013	51,490,000	30,838,923	82,328,923
2014	48,295,000	28,299,248	76,594,248
2015-2019	244,745,000	104,036,250	348,781,250
2020-2024	191,490,000	47,656,145	239,146,145
2025-2028	81,020,000	8,547,900	89,567,900
Totals	\$ 805,305,000	\$ 330,534,758	\$ 1,135,839,758

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2009 and 2008, the total assets of the Leveraged Loan Portfolio were \$1,046,763,780 and \$1,000,181,932, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Revenue obligation bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$805 million in revenue bonds issued between 1991-2008. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require 45% of revenues. The total principal and interest remaining to be paid on the bonds is \$1,135,839,758. Principal and interest paid for the current year and total net revenues were \$100 million and \$104 million, respectively.

RESTRICTED ASSETS

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net assets consist of substantially all of the AIG, Bayerische Landesbank investments (Note 3) and \$20.3 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

NOTE 7 – ADVANCE REFUNDING

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2009, and 2008, there was \$80,895,000 and \$91,985,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of \$85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2009 and 2008, there was \$42,910,000 and \$47,195,000, respectively, of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of \$107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2009, and 2008, there was \$104,785,000 and \$109,185,000, respectively, of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 7 – ADVANCE REFUNDING (cont.)

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2009 and 2008, there was \$28,100,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds and notes prior to the 2008 advance refunding was \$42,551,174 from 2008 through 2018. The cash flow requirements on the 2008 refunding bonds are \$40,344,072 from 2008 through 2018. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,006,797.

NOTE 8 – GLOBAL CERTIFICATES

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for \$116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2009 and 2008 is \$91,628,652 and 0.57% and \$101,986,724 and 2.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2009 were \$14,406,896 and 5.43% and \$4,789,556 and 5.76%, respectively. The estimated market value and weighted average coupon interest rates of the Global Certificates at June 30, 2008 were \$13,536,034 and 5.43% and \$4,564,876 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$16,600,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2009 and 2008 is \$19,395,018 and 6.16% and \$17,020,266 and 6.16%, respectively. The bonds are registered in the name of the fund and held by an independent trustee.

In January 2009, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 30, 2009 was \$19,830,240 and 5.78%, respectively. The bond is registered in the name of the Fund and held by an independent trustee.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 8 – GLOBAL CERTIFICATES (cont.)

Principal maturities of the Global Certificates as of June 30 are as follows:

Years Ending <u>June 30,</u>	<u>2009</u>	<u>2008</u>
2010	\$ 14,954,450	\$ 14,954,450
2011	19,190,325	19,190,325
2012	7,746,829	7,746,829
2013	9,662,930	9,662,930
2014	5,885,021	5,885,021
2015-2019	46,026,710	37,726,710
2020-2024	39,748,906	33,148,906
2025-2028	<u>27,628,259</u>	<u>24,828,259</u>
Totals	<u>\$ 170,843,430</u>	<u>\$ 153,143,430</u>

NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 3,362,798	\$ 10,180,534
MBIA Guaranteed Investment Agreement	2,153	387,518
Repurchase Agreement with Bayerische Landesbank	493,864	493,864
AIG Guaranteed Investment Agreement	1,769,209	1,769,209
United States Treasury Notes	2,375,864	2,110,678
State of Wisconsin General Obligation Bonds	<u>20,511,736</u>	<u>19,192,074</u>
Total Interest	<u>28,515,624</u>	<u>34,133,877</u>
Changes in Realized and Unrealized Gains (Losses)		
United States Treasury Notes	209,129	33,873
State of Wisconsin General Obligation Bonds	<u>(4,460,281)</u>	<u>(11,010,290)</u>
Total Changes in Unrealized Gains (Losses)	<u>(4,251,152)</u>	<u>(10,976,417)</u>
Total Interest and Changes in Unrealized Gains (Losses)	24,264,472	23,157,460
Change in Estimated Rebatable Arbitrage Liability	<u>(541,387)</u>	<u>(1,948,851)</u>
TOTAL INVESTMENT INCOME	<u>\$ 23,723,085</u>	<u>\$ 21,208,609</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2009 and 2008

NOTE 10 – OPERATING GRANTS AND HARDSHIP GRANTS

EPA Operating Grants for Wastewater Projects—The Federal Water Quality Act of 1987 (the “Water Quality Act”) established a joint Federal and state program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is expected to result in the allocation of capitalization grant to Wisconsin of approximately \$18.4 million for federal fiscal year 2009. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2009 are unknown at this time.

EPA Operating Grants for Drinking Water Projects—The Federal Safe Drinking Water Act Amendment of 1996 (the “Safe Drinking Water Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2009 and a grant to Wisconsin of approximately \$15.8 million is expected for federal fiscal year 2009.

Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

Hardship Grants—Wisconsin statutes require that the Fund provide financial hardship assistance for wastewater projects to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants subject to limitations prescribed by the statute. In 2009 and 2008, the Fund expended hardship grants of \$2,755,240 and \$887,491, respectively. At June 30, 2009 and 2008, the Fund was committed to award \$482,467 and \$475,157, respectively, of additional hardship grants. At June 30, 2009, the Fund had projected \$155,541,252 of additional hardship grants. No additional hardship grants were projected as of June 30, 2008.

SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2009

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 116,126,526	\$ 16,523,015	\$ 18,659,638
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	-	45,551,942
Receivables			
Loans to local governments - current portion	71,968,121	1,556,850	61,960,376
Due from other funds	-	2,249,505	-
Due from other governmental entities	4,366,500	50,423	3,188,910
Accrued investment income	-	-	378,957
Other	-	-	-
Prepaid items	-	5,004	16,886
Total Current Assets	<u>192,461,147</u>	<u>20,384,797</u>	<u>129,756,709</u>
Noncurrent Assets			
Restricted assets - cash equivalents	-	-	99,384,996
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	160,350,361
Loans to local governments	789,779,195	10,940,185	653,830,211
Prepaid items	-	-	235,010
Deferred debt expense	-	-	3,206,493
Total Noncurrent Assets	<u>789,779,195</u>	<u>10,940,185</u>	<u>917,007,071</u>
TOTAL ASSETS	<u>\$ 982,240,342</u>	<u>\$ 31,324,982</u>	<u>\$ 1,046,763,780</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 64,116,690	\$ -	\$ 215,425,869
-	-	45,551,942
12,489,932	-	147,975,279
-	(2,234,022)	15,483
999,921	-	8,605,754
-	-	378,957
548,264	-	548,264
-	-	21,890
<u>78,154,807</u>	<u>(2,234,022)</u>	<u>418,523,438</u>
-	-	99,384,996
-	-	160,350,361
191,348,116	-	1,645,897,707
-	-	235,010
-	-	3,206,493
<u>191,348,116</u>	<u>-</u>	<u>1,909,074,567</u>
<u>\$ 269,502,923</u>	<u>\$ (2,234,022)</u>	<u>\$ 2,327,598,005</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET ASSETS
BY PROGRAM
June 30, 2009

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accrued expenses	\$ 13,787	\$ 62,771	\$ -
Accrued interest on bonds	-	-	3,388,958
Due to other funds	85,956	1,212,074	2,234,022
Due to other governmental entities	-	-	-
Revenue obligation bonds - current maturities	-	-	66,865,000
Total Current Liabilities	<u>99,743</u>	<u>1,274,845</u>	<u>72,487,980</u>
Noncurrent Liabilities			
Revenue obligation bonds, net (including deferred charge)	-	-	762,403,792
Due to other governmental entities	-	-	958,840
Accrued expenses	-	76,188	-
Total Noncurrent Liabilities	<u>-</u>	<u>76,188</u>	<u>763,362,632</u>
Total Liabilities	<u>99,743</u>	<u>1,351,033</u>	<u>835,850,612</u>
Net Assets			
Restricted for environmental improvement	982,140,599	6,569,621	210,913,168
Unrestricted	-	23,404,328	-
Total Net Assets	<u>982,140,599</u>	<u>29,973,949</u>	<u>210,913,168</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 982,240,342</u>	<u>\$ 31,324,982</u>	<u>\$ 1,046,763,780</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 72,257	\$ -	\$ 148,815
-	-	3,388,958
28,327	(2,234,022)	1,326,357
145,852	-	145,852
-	-	66,865,000
<u>246,436</u>	<u>(2,234,022)</u>	<u>71,874,982</u>
-	-	762,403,792
-	-	958,840
-	-	76,188
<u>-</u>	<u>-</u>	<u>763,438,820</u>
<u>246,436</u>	<u>(2,234,022)</u>	<u>835,313,802</u>
269,256,487	-	1,468,879,875
-	-	23,404,328
<u>269,256,487</u>	<u>-</u>	<u>1,492,284,203</u>
<u>\$ 269,502,923</u>	<u>\$ (2,234,022)</u>	<u>\$ 2,327,598,005</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BY PROGRAM
For the Year Ended June 30, 2009

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
OPERATING REVENUES			
Loan interest	\$ 23,367,419	\$ 336,487	\$ -
Interest income used as security for revenue bonds	-	50,136	19,900,034
Total Operating Revenues	<u>23,367,419</u>	<u>386,623</u>	<u>19,900,034</u>
OPERATING EXPENSES			
Interest	-	-	39,281,867
Salaries and benefits	885,819	448,168	1,792,671
Contractual services and other	26,738	110,338	553,031
Total Operating Expenses	<u>912,557</u>	<u>558,506</u>	<u>41,627,569</u>
Operating Income (Loss)	<u>22,454,862</u>	<u>(171,883)</u>	<u>(21,727,535)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	1,159,618	227,532	-
Investment income used as security for revenue bonds	-	-	21,525,827
Operating grants	12,171,552	-	-
Hardship grants awarded	-	(2,924,786)	-
Total Nonoperating Revenues (Expenses), Net	<u>13,331,170</u>	<u>(2,697,254)</u>	<u>21,525,827</u>
INCOME (LOSS) BEFORE TRANSFERS	35,786,032	(2,869,137)	(201,708)
Transfers in/(out)	<u>(3,548,805)</u>	<u>(740,025)</u>	<u>17,700,000</u>
Increase in Net Assets	32,237,227	(3,609,162)	17,498,292
TOTAL NET ASSETS - Beginning of Year	<u>949,903,372</u>	<u>33,583,111</u>	<u>193,414,876</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 982,140,599</u>	<u>\$ 29,973,949</u>	<u>\$ 210,913,168</u>

Safe Drinking Water Loan Program	Totals
\$ 4,678,153	\$ 28,382,059
-	19,950,170
4,678,153	48,332,229
-	39,281,867
1,221,468	4,348,126
1,240,714	1,930,821
2,462,182	45,560,814
2,215,971	2,771,415
810,108	2,197,258
-	21,525,827
21,503,366	33,674,918
-	(2,924,786)
22,313,474	54,473,217
24,529,445	57,244,632
1,585,238	14,996,408
26,114,683	72,241,040
243,141,804	1,420,043,163
\$ 269,256,487	\$ 1,492,284,203

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2009

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES			
Payments to employees for services	\$ (880,912)	\$ (197,121)	\$ (2,013,673)
Payments to suppliers and other	(26,738)	(214,976)	(1,299,632)
Other operating revenues	-	50,136	-
Net Cash Flows From (Used by) Operating Activities	<u>(907,650)</u>	<u>(361,961)</u>	<u>(3,313,305)</u>
CASH FLOWS FROM (USED BY) NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	12,182,705	-	-
Grants paid	-	(2,924,786)	-
Transfers in (out)	(3,548,805)	(740,025)	17,700,000
Proceeds from issuance of long-term debt	-	-	94,974,120
Retirement of long-term debt	-	-	(60,730,000)
Interest payments	-	-	(43,414,625)
Net Cash Flows From (Used by) Noncapital Financing Activities	<u>8,633,900</u>	<u>(3,664,811)</u>	<u>8,529,495</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES			
Origination of loans	(80,312,134)	-	(98,041,261)
Collection on loans	64,036,343	1,634,577	59,780,187
Interest received on loans	1,159,617	227,532	25,759,121
Purchase of investments	-	-	(142,119,211)
Liquidation of investments	-	-	126,898,777
Investment and interest income	<u>23,181,401</u>	<u>342,186</u>	<u>19,681,009</u>
Net Cash Flows From (Used by) Investing Activities	<u>8,065,227</u>	<u>2,204,295</u>	<u>(8,041,378)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	15,791,477	(1,822,477)	(2,825,188)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>100,335,049</u>	<u>18,345,492</u>	<u>120,869,822</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 116,126,526</u>	<u>\$ 16,523,015</u>	<u>\$ 118,044,634</u>

Safe Drinking Water Loan Program	Totals
\$ (1,286,465)	\$ (4,378,171)
(1,113,569)	(2,654,915)
-	50,136
(2,400,034)	(6,982,950)
21,478,875	33,661,580
-	(2,924,786)
1,585,238	14,996,408
-	94,974,120
-	(60,730,000)
-	(43,414,625)
23,064,113	36,562,697
(36,861,487)	(215,214,882)
11,434,130	136,885,237
810,108	27,956,378
-	(142,119,211)
-	126,898,777
4,588,088	47,792,684
(20,029,161)	(17,801,017)
634,918	11,778,730
63,481,772	303,032,135
\$ 64,116,690	\$ 314,810,865

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2009

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 22,454,862	\$ (171,883)	\$ (21,727,535)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Amortization	-	-	(2,680,235)
Interest income classified as investing activity	(23,367,420)	(336,486)	(19,900,036)
Interest expense classified as noncapital financing activity	-	-	44,117,401
Changes in assets and liabilities:			
Due from other funds	-	198,525	-
Other receivables	-	-	-
Prepaid items	-	(241)	16,887
Deferred debt expense	-	-	(791,997)
Accrued expenses	(6,585)	22,788	-
Accrued interest on bonds	-	-	(2,155,297)
Due to other funds	11,493	(74,664)	(192,493)
Due to other governmental entities	-	-	-
Total Adjustments	<u>(23,362,512)</u>	<u>(190,078)</u>	<u>18,414,230</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (907,650)</u>	<u>\$ (361,961)</u>	<u>\$ (3,313,305)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Unrestricted cash and cash equivalents - statement of net assets	\$ 116,126,526	\$ 16,523,015	\$ 18,659,638
Restricted cash and cash equivalents - statement of net assets	-	-	99,384,996
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 116,126,526</u>	<u>\$ 16,523,015</u>	<u>\$ 118,044,634</u>
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES: NONE			

Safe Drinking Water Loan Program	Totals
<u>\$ 2,215,971</u>	<u>\$ 2,771,415</u>
-	(2,680,235)
(4,678,153)	(48,282,095)
-	44,117,401
-	198,525
121,752	121,752
-	16,646
-	(791,997)
(18,575)	(2,372)
-	(2,155,297)
(43,393)	(299,057)
2,364	2,364
<u>(4,616,005)</u>	<u>(9,754,365)</u>
<u>\$ (2,400,034)</u>	<u>\$ (6,982,950)</u>
<u>\$ 64,116,690</u>	<u>\$ 215,425,869</u>
-	99,384,996
<u>\$ 64,116,690</u>	<u>\$ 314,810,865</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)
Years Ended June 30, 2009 and 2008

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Environmental Improvement Fund. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of June 30, 2009 and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Wisconsin Environmental Improvement Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State of Wisconsin Environmental Improvement Fund's financial statements that is more than inconsequential will not be prevented or detected by the State of Wisconsin Environmental Improvement Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the State of Wisconsin Environmental Improvement Fund's internal control.

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Wisconsin Environmental Improvement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the State of Wisconsin Environmental Improvement Fund in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of the State of Wisconsin Environmental Improvement Fund management, others within the entity, federal agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Madison, Wisconsin
November 13, 2009

A handwritten signature in black ink that reads "Baker Tilly Vuclow-Krause LLP". The signature is written in a cursive, flowing style.

STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO
FINANCIAL STATEMENTS
For the Year Ended June 1, 2009 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration
and the Secretary of the Department of
Natural Resources of the State of Wisconsin

We have audited the accompanying financial statements of the Leveraged Loan Portfolio (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund (an enterprise fund of the State of Wisconsin), as of June 1, 2009, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and are not intended to present fairly the financial position of the State of Wisconsin, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund as of June 1, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

The "Other Information" on page 53 is presented for informational purposes only and is not a required part of the financial statements of the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund. The information has not been audited by us, and, accordingly, we express no opinion on such information.

Madison, Wisconsin
November 13, 2009

Baker Tilly Virchow Krause LLP

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET ASSETS
June 1, 2009

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$ 21,852,308
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,550,606
Receivables	
Loans to local governments - current portion	61,835,177
Due from other governmental entities	1,621,480
Prepaid items	253,304
Total Current Assets	<u>131,112,875</u>
Noncurrent Assets	
Restricted assets - cash equivalents	99,127,487
Investments - State of Wisconsin general obligation clean water bonds, at fair value	160,361,034
Loans to local governments	650,993,593
Deferred debt expense	3,251,184
Total Noncurrent Assets	<u>913,733,298</u>
TOTAL ASSETS	<u>\$ 1,044,846,173</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Due to other funds	\$ 2,047,854
Revenue obligation bonds - current maturities	66,865,000
Total Current Liabilities	<u>68,912,854</u>
Noncurrent Liabilities	
Due to other governmental entities	939,444
Revenue obligation bonds, net (including deferred charge)	762,723,269
Total Noncurrent Liabilities	<u>763,662,713</u>
Total Liabilities	<u>832,575,567</u>
Net Assets	
Restricted for environmental improvement	212,270,606
Total Net Assets	<u>212,270,606</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,044,846,173</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 1, 2009

OPERATING REVENUES	
Interest income used as security for revenue bonds	\$ 19,792,379
Total Operating Revenues	<u>19,792,379</u>
OPERATING EXPENSES	
Interest	39,277,142
Salaries and benefits	1,811,088
Contractual services and other	<u>568,702</u>
Total Operating Expenses	<u>41,656,932</u>
Operating Loss	<u>(21,864,553)</u>
NONOPERATING REVENUES	
Investment income used as security for revenue bonds	<u>22,553,293</u>
Total Nonoperating Revenues, Net	<u>22,553,293</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>688,740</u>
Transfers in	<u>34,300,000</u>
Increase in Net Assets	34,988,740
TOTAL NET ASSETS - Beginning of Year	<u>177,281,866</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 212,270,606</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS
For the Year Ended June 1, 2009

CASH FLOWS USED BY OPERATING ACTIVITIES	
Payments to employees for services	\$ (2,013,673)
Payments to suppliers and other	<u>(1,300,792)</u>
Net Cash Flows Used by Operating Activities	<u>(3,314,465)</u>
 CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	
Transfers in	34,300,000
Proceeds from issuance of long-term debt	94,974,120
Retirement of long-term debt	(114,540,000)
Interest payments	<u>(60,154,280)</u>
Net Cash Flows Used by Noncapital Financing Activities	<u>(45,420,160)</u>
 CASH FLOWS USED BY INVESTING ACTIVITIES	
Origination of loans	(125,959,764)
Collection on loans	59,781,234
Interest and dividends received	27,049,618
Purchase of investments	(160,903,203)
Liquidation of investments	126,899,923
Investment and interest income	<u>19,681,009</u>
Net Cash Flows Used by Investing Activities	<u>(53,451,183)</u>
Net Decrease in Cash and Cash Equivalents	 (102,185,808)
CASH AND CASH EQUIVALENTS - Beginning of Year	 <u>223,165,603</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 120,979,795</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
FLOWS FROM OPERATIONS**

Operating Loss \$ (21,864,553)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED IN OPERATION**

Amortization 1,116,883
Interest income classified as investing activity (19,792,379)
Interest expense classified as noncapital financing activity 38,160,259
Changes in assets and liabilities:
 Prepays 33,774
 Deferred debt expense (791,997)
 Due to other funds (176,452)
 Total Adjustments 18,550,088

NET CASH FLOWS FROM OPERATING ACTIVITIES \$ (3,314,465)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENT OF NET ASSETS**

Unrestricted cash and cash equivalents - statement of net assets \$ 21,852,308
Restricted cash and cash equivalents - statement of net assets 99,127,487

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 120,979,795

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Leveraged Loan Portfolio (the “Portfolio”) is one of three portfolios of the Clean Water Fund Program, an environmental financing program of the State of Wisconsin Environmental Improvement Fund (the “Fund”). The Fund is an enterprise fund of the State of Wisconsin (the “State”) administered by the State of Wisconsin Department of Natural Resources (the “DNR”) and the State of Wisconsin Department of Administration (the “DOA”).

The Portfolio is funded by proceeds of revenue obligation bonds and contributions from the State. Assets in the Portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements.

The Fund applies all applicable Governmental Accounting Standards Board (“GASB”) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Net Operating Loss—The Portfolio incurred an operating loss of \$21.9 million in 2009. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio’s statutory mission to provide loans to municipalities at interest rates below the Portfolio’s own cost of funds. The losses have historically been funded by transfers from the State. No transfers for the purpose were required in 2009. Management expects transfers will continue for the foreseeable future sufficient to fund both the future operating losses and, together with additional borrowing, to fund additional loans to municipalities.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the statement of net assets.

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Portfolio holds United States Treasury Notes as investments at June 1, 2009 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

GASB Statement No. 31 (GASB No. 31) states that investments in participating interest-earning investment contracts must be reported at fair value. The four forward delivery agreements with Wachovia Bank, NA (“Wachovia”); and two forward delivery agreements with JP Morgan Chase Bank (JP Morgan) described in Note 4 would be considered participating investment contracts under GASB No. 31. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2009, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$1,072,230.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments—Investments that are stated at fair value include the State of Wisconsin Investment Board (“SWIB”) Local Government Investment Pool (“LGIP”) (see Note 3). The Portfolio has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the Internal Revenue Code, the amount that must be rebated (“estimated arbitrage”) to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

Deferred Debt Expense—Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized as a component of interest expense using the effective rate method.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

Deferred Charge—The Portfolio defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

Cash Equivalents—The Portfolio considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Portfolio also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

Net Assets—Net assets are classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Clean Water Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended.

Transfers In—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2009, represent loans for wastewater treatment projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Portfolio are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State contributions. Interest rates on loans receivable ranged from 0% to 5.8% in 2009. The weighted average interest rate was 2.730% at June 1, 2009. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2009, \$234,747,584 (33%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio entered into \$217,508,841 of new loans during the 12 month period ending June 1, 2009. As of June 1, 2009, the Portfolio had undisbursed loan commitments totaling \$109,286,913. From June 1, 2009 to September 14, 2009, the Portfolio made additional loan disbursements of \$10,437,205 for financial assistance agreements that were outstanding prior to June 1, 2009. \$15,732,834 of additional leverage loans were executed between June 1, 2009 and September 14, 2009. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 1, 2009, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	\$ 89,354,476
Cash held by trustee	2,183,992
Investments reported at cost:	
Repurchase Agreement with Bayerische Landesbank	7,597,910
American International Group Matched Funding Corp. (AIG) Guaranteed Investment Agreement	21,842,081
Miscellaneous cash	1,336
	<hr/>
	120,979,795
Less: Amounts classified as restricted assets (see Note 6)	(99,127,487)
	<hr/>
Total Unrestricted Cash and Cash Equivalents	\$ 21,852,308

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP was insured as to credit risk under a surety bond issued by Financial Security Assurance, Inc. This coverage expired on February 15, 2009. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2009, the current yield on the LGIP was 0.47%. The LGIP investment is stated at fair value.

The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 1, 2009, the agreement had a market value of \$24,639,542 and was accruing interest at the rate of 8.1%.

The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures. At June 1, 2009, the repurchase agreement had a market value of \$8,959,578. The collateral is held by Wells Fargo Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement, along with the AIG investment agreement, provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution.

	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
Cash held by trustee	\$ 2,183,992	\$0	N/A	N/A	N/A	N/A	0.7%
LGIP	89,354,476	N/A	Not rated	80 days weighted average maturity	N/A	N/A	28.2
Repo BL (vs. veterans affairs)	7,597,910	\$0	Not rated	6-15-28 final maturity	N/A	N/A	2.4
AIG-GIC	21,842,081	N/A	A-	6-1-11 final maturity	N/A	N/A	6.9
Treasury notes – Forward delivery	45,550,606	\$0	N/A	See Note 4	N/A	N/A	14.4
GO Bonds-WI	150,061,034	\$0	Aa3	5-1-24 final maturity	N/A	N/A	47.4
Miscellaneous cash	1,336	N/A	N/A	N/A	N/A	N/A	0.0

The Leveraged Loan Portfolio does not have an investment policy for custodial credit risk, credit risk, interest rate risk, or concentration of credit risk.

Restricted assets of \$99,127,487 represent amounts legally restricted by the Clean Water Revenue Bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Portfolio has entered into seven agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 6). Four of the agreements are with Wachovia, one is with WestLB, and two are with JP Morgan and each provides for the delivery to, and purchase by, the Portfolio, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1993 Series 1, 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wachovia, WestLB, and JP Morgan are required to deliver United States Treasury securities (“Treasury securities”) to the Portfolio for purchase. The Treasury securities are held as investments by the Portfolio. The price paid by the Portfolio for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The Wachovia agreements may be terminated at the option of the Portfolio and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination.

Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Portfolio to Wachovia. If the agreements were terminated at a time when a payment would be due to Wachovia, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

The agreement with WestLB was amended effective December 10, 2002 to modify the termination provision. Other than a default by any of the parties to the agreement, the agreement may only be terminated on the last scheduled bond payment date for the 1993 Series 1 bonds which is June 1, 2013.

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2009, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,187,200	4.625%	\$ 6,992,051	5.58%	June 1, 2017	\$ 7,177,130
Series 1998-1 Agreement	7,475,800	4.625	7,292,805	5.01	June 1, 2018	7,465,126
Series 1999-1 Agreement	7,137,500	4.625	6,918,863	6.32	June 1, 2020	7,127,499
Series 2006-1 Agreement	6,467,000	6.250	6,421,561	4.56	June 1, 2027	6,557,182
Series 2006-2 Agreement	8,067,000	4.625	7,999,327	4.84	June 1, 2027	8,179,494
Series 2008-1 Agreement	9,901,000	4.625	9,927,334	4.10	June 1, 2028	10,116,406
Series 1993-1 Agreement*	2,183,992	N/A	2,183,992	5.22	June 1, 2013	-

* The \$2,183,992 reported for the Series 1993-1 Agreement was held by the Portfolio’s custodian as a pending transaction at June 1, 2009.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Portfolio	Leveraged Loan Portfolio	\$ 2,047,854
Total Due to Other Funds – Statement of Net Assets		<u>\$ 2,047,854</u>

This interfund resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
Leveraged Loan Portfolio	Capital Improvement	\$ 34,300,000	Future Debt Service
Total Transfers – Statement of Revenues, Expenses and Changes in Net Assets		<u>\$ 34,300,000</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 827,635,000	\$ 92,210,000	\$ 114,540,000	\$ 805,305,000	\$ 66,865,000
Add/(subtract) deferred amounts for:					
Refundings-gains/(losses)	(8,973,824)	-	(1,791,899)	(7,181,925)	-
Premiums/discounts	33,351,000	2,764,120	4,649,926	31,465,194	-
Totals	<u>\$ 852,012,176</u>	<u>\$ 94,974,120</u>	<u>\$ 117,398,027</u>	<u>\$ 829,588,269</u>	<u>\$ 66,865,000</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation serial and term bonds as of June 1, 2009 consisted of the following:

	2009
1991 Series 1:	
Term Bonds, mandatory redemption of bonds at 100% of par, June 1, 2009 through June 1, 2011	\$ 39,555,000
Unamortized discount on bonds	(31,213)
	39,523,787
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	79,450,000
Unamortized premium on bonds	2,038,313
	81,488,313
2001 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2011	21,385,000
Unamortized discount on bonds	(156,704)
	21,228,296
2002 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2012	51,955,000
Unamortized discount on bonds	(172,938)
	51,782,062
2002 Series 2:	
Serial Bonds, no optional redemption, June 1, 2016	39,745,000
Unamortized premium on bonds	1,432,618
	41,177,618
2004 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2014	85,150,000
Unamortized premium on bonds	2,405,804
	87,555,804
2004 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	102,675,000
Unamortized premium on bonds	6,411,223
	109,086,223
2006 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	75,040,000
Unamortized premium on bonds	3,948,232
	78,988,232

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

	2009
2006 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2015	\$ 93,800,000
Unamortized premium on bonds	3,282,324
	97,082,324
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	97,005,000
Unamortized premium on bonds	6,741,860
	103,746,860
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	27,335,000
Unamortized premium on bonds	2,989,750
	30,324,750
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	92,210,000
Unamortized premium on bonds	2,575,925
	94,785,925
Total of All Series	836,770,194
Unamortized deferred charge related to debt defeasance (Note 7)	(7,181,925)
Revenue Obligation Bonds, Net of Deferred Charge	\$ 829,588,269

The original issue discount or premium at issuance and the interest rates at June 1, 2009, on the following bond series were:

Series	Original Issue Discount/ (Premium)	Interest Rates
1991 Series 1	\$ 1,366,407	6.875%
1998 Series 2	(7,739,808)	4.00 – 5.50%
2001 Series 1	(1,022,362)	4.50 – 5.25%
2002 Series 1	(2,426,001)	4.00 – 5.25%
2002 Series 2	(7,344,000)	3.00 – 5.50%
2004 Series 1	(6,632,300)	4.00 – 5.00%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2006 Series 2	(4,359,628)	4.00 – 5.00%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.00%

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Principal maturities of the bonds, net of advance refundings, as of June 1, 2009, are as follows:

Years Ending June 1,	Principal	Interest	Totals
2010	\$ 66,865,000	\$ 40,676,666	\$ 107,541,666
2011	70,690,000	37,109,691	107,799,691
2012	50,710,000	33,369,935	84,079,935
2013	51,490,000	30,838,923	82,328,923
2014	48,295,000	28,299,248	76,594,248
2015-2019	244,745,000	104,036,250	348,781,250
2020-2024	191,490,000	47,656,145	239,146,145
2025-2028	81,020,000	8,547,900	89,567,900
Totals	<u>\$ 805,305,000</u>	<u>\$ 330,534,758</u>	<u>\$ 1,135,839,758</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2009, the total assets of the Leveraged Loan Portfolio were \$1,044,846,173. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheets consist of substantially all of the AIG, Bayerische Landesbank investments (Note 3) and \$20.3 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

NOTE 7 – ADVANCE REFUNDING

In 1998, the Fund defeased a portion of its 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 bonds through the issuance of \$104,360,000 of 1998 Series 2 Refunding Bonds. The proceeds from the 1998 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2009, there was \$80,895,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 1, 2009

NOTE 7 – ADVANCE REFUNDING (cont.)

In 2002, the Fund defeased a portion of its 1993 Series 1, 1995 Series 1, 1997 Series 1, 1998 Series 1, and 1999 Series 1 bonds through the issuance of \$85,575,000 of 2002 Series 2 Refunding Bonds. The proceeds from the 2002 Series 2 Refunding Bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2009, there was \$42,910,000 of the defeased bonds outstanding that will be serviced by the irrevocable trust's remaining funds.

In 2005, the Fund defeased a portion of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds through the issuance of \$107,025,000 of 2004 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2009, there was \$104,785,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

In 2008, the Fund defeased a portion of its 1998 Series 1 and 2001 Series 1 bonds through the issuance of \$27,335,000 of 2008 Series 2 Refunding Bonds. The proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2009, there was \$28,100,000 of the defeased bonds outstanding that will be served by the irrevocable trust's remaining funds.

NOTE 8 – GLOBAL CERTIFICATES

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for \$116,840,689 (par value) of State of Wisconsin General Obligation Bond, Clean Water Fund Program ("Global Certificate"). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2009 is \$91,595,310 and 0.57%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In February 2007, two additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program ("Global Certificate") for \$13,148,554 and \$6,851,446 (par value). The estimated market value and weighted average coupon interest rates of the Global Certificates at June 1, 2009 were \$14,419,126 and 5.43% and \$4,792,967 and 5.76%, respectively. The Bonds are registered in the name of the Fund and held by an independent trustee.

In June 2008, one State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$16,600,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2009 was \$19,422,318 and 6.16%, respectively. The Bond is registered in the name of the Portfolio and held by an independent trustee.

In January 2009, one additional State of Wisconsin General Obligation Bond was issued for the Clean Water Fund Program ("Global Certificate") for \$17,700,000 (par value). The estimated market value and weighted average coupon interest rate of the Global Certificate at June 1, 2009 was \$19,831,311 and 5.78%, respectively. The Bond is registered in the name of the Portfolio and held by an independent trustee.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS For the Year Ended June 1, 2009

NOTE 8 – GLOBAL CERTIFICATES (cont.)

Principal maturities of the Global Certificates as of June 1 are as follows:

Years Ending June 1,	2009
2010	\$ 14,954,450
2011	19,190,325
2012	7,746,829
2013	9,662,930
2014	5,885,021
2015-2019	46,026,710
2020-2024	39,748,906
2025-2028	27,628,259
Totals	\$ 170,843,430

NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water Revenue Bonds and consisted of the following for the fiscal year ended June 1, 2009:

Interest	
State of Wisconsin Investment Board Local Government Investment Pool	\$ 1,319,594
MBIA Guaranteed Investment Agreement	34,446
Repurchase Agreement with Bayerische Landesbank	493,864
AIG Guaranteed Investment Agreement	1,769,209
United States Treasury Notes	2,394,122
State of Wisconsin General Obligation Bonds	<u>20,579,637</u>
Total Interest	<u>26,590,872</u>
Changes in Realized and Unrealized Gains (Losses)	
United States Treasury Notes	200,000
State of Wisconsin General Obligation Bonds	<u>(3,730,025)</u>
Total Changes in Realized and Unrealized Gains (Losses)	<u>(3,530,025)</u>
Total Interest and Changes in Unrealized Gains (Losses)	23,060,847
Change in Estimated Rebtable Arbitrage Liability	<u>(507,554)</u>
TOTAL INVESTMENT INCOME	\$ 22,553,293

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)
For the Year Ended June 1, 2009

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Leveraged Loan Portfolio. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.